



GLOBAL IP SOLUTIONS

A thin, curved orange line that starts on the left, rises to a peak, and then descends towards the right, framing the word 'SOLUTIONS' below it.

# SOLUTIONS

2006 ANNUAL REPORT



Dear Shareholder,

The industry is facing unprecedented change with voice over IP (VoIP) disrupting traditional methods of communication. Global IP Solutions is firmly positioned to support this multi-billion dollar market given that the company is established as the leading provider of embedded multimedia engines. GIPS' media engines drive voice and video over IP by providing the high-quality standards demanded by end-users today.

The company has gone through critical growth and change over the last few years. As a start-up company, GIPS was created by the best minds in voice technology and focused on supporting the early VoIP adopters. Now, as a well positioned corporation, GIPS provides high-quality software solutions that are utilized by major companies such as AOL, Google, IBM, Nortel, Oracle, Samsung and Yahoo! to offer their customers the best quality available today.

We are at an exciting point in our development. We recently broadened our scope by acquiring new technologies which will increase and solidify our software solutions' offering. GIPS is accelerating its research, development and legacy of industry-leading innovation which distinguishes the company from any and all competition. GIPS has not only a unique understanding of voice and video over IP but also a deep technological capability to deliver high-quality multimedia solutions that lead the industry.

I am proud of our achievements and of GIPS' outstanding team of professionals who continue to strive for excellence and to bring innovative solutions that help our customers in their business, and I am grateful for your support as shareholders.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ditlef de Vibe', with a stylized, cursive script.

Ditlef de Vibe  
Chairman

Letter from the CEO	2
Our Purpose and What We Do	4
Our Management Team	6
How It All Started	8
A Financial Guru Speaks	10
Industry Overview	12
A Leading Analyst's View	14
Looking Back and Progressing Forward	16
e-Kong Profile	18
WebEx Profile	20
Administration Report	22
Consolidated Income Statement	24
Consolidated Balance Sheet	25
Consolidated Cash Flow Statement	26
Parent Company Income Statement	27
Parent Company Balance Sheet	28
Parent Company Cash Flow Statement	29
Notes to the Financial Statements	30
PricewaterhouseCoopers Audit Report	38



Dear Shareholder,

Voice over IP continues to evolve how the world communicates as voice and video begin to flow over the Internet in real-time. Global IP Solutions enables this communication to happen with previously unimaginable ease, reliability and clarity.

2006 was a strong year overall for the company. Our solid financial results were the outcome of technological innovation and marketplace execution. We signed key deals with Tier 1 customers and our royalty revenues are steadily increasing. Particularly noteworthy was our revenue growth. 2006 revenues grew to over \$17 million, a 93 percent increase over 2005 revenues and a continued annual growth rate since 2004.

As we move forward into 2007 the company is growing. In early January we acquired an exclusive license to video intellectual property rights, which, when combined with our expertise of packet networks, enables us to deliver the highest-quality, real-time, two-way video communication in the market today. This has allowed GIPS to solidify our reputation as the industry leader in multimedia processing and expand the Media Engines division.

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The same month we acquired a company which provides focused solutions for the enterprise market. Our Click-to-Talk, Softphone with Remote Extension capabilities and Interoffice Voice Trunking solutions offer remarkable possibilities for the future of enterprise communications. These technologies are the basis of our second business unit, the Solutions division. Our goal is to mature these business divisions aggressively by catering to the demand for high-quality, ready-to-market VoIP solutions and enable businesses such as service providers, application developers, and equipment manufacturers. At GIPS we always focus on innovation and our technologies have become essential for any company providing IP-enabled products. As a result of our technological achievements, we sit at the vanguard of voice and video over IP. On behalf of all of us at Global IP Solutions, we thank you for your participation as well as your support and look forward to continued success.

Thanks,

A handwritten signature in black ink, appearing to read 'G. Hermansen', with a long horizontal flourish extending to the right.

Gary Hermansen  
CEO and President

# MULTIMEDIA



“As we move forward into 2007 the company is growing both its revenues and size. In early January we acquired an exclusive license to video intellectual property rights, which, when combined with our expertise of packet networks, enables us to deliver the highest-quality, real-time, two-way video communication in the market today.”

Gary Hermansen, CEO and President



## **OUR PURPOSE**

Global IP Solutions develops embedded video and voice processing technologies, as well as complete applications for real-time, two-way communication over packet networks. We believe that the market for voice and video over IP is considerable, and our recently expanded offerings affirm our commitment to capturing it.

Simply stated, our vision is to power every IP-enabled product with GIPS technology.

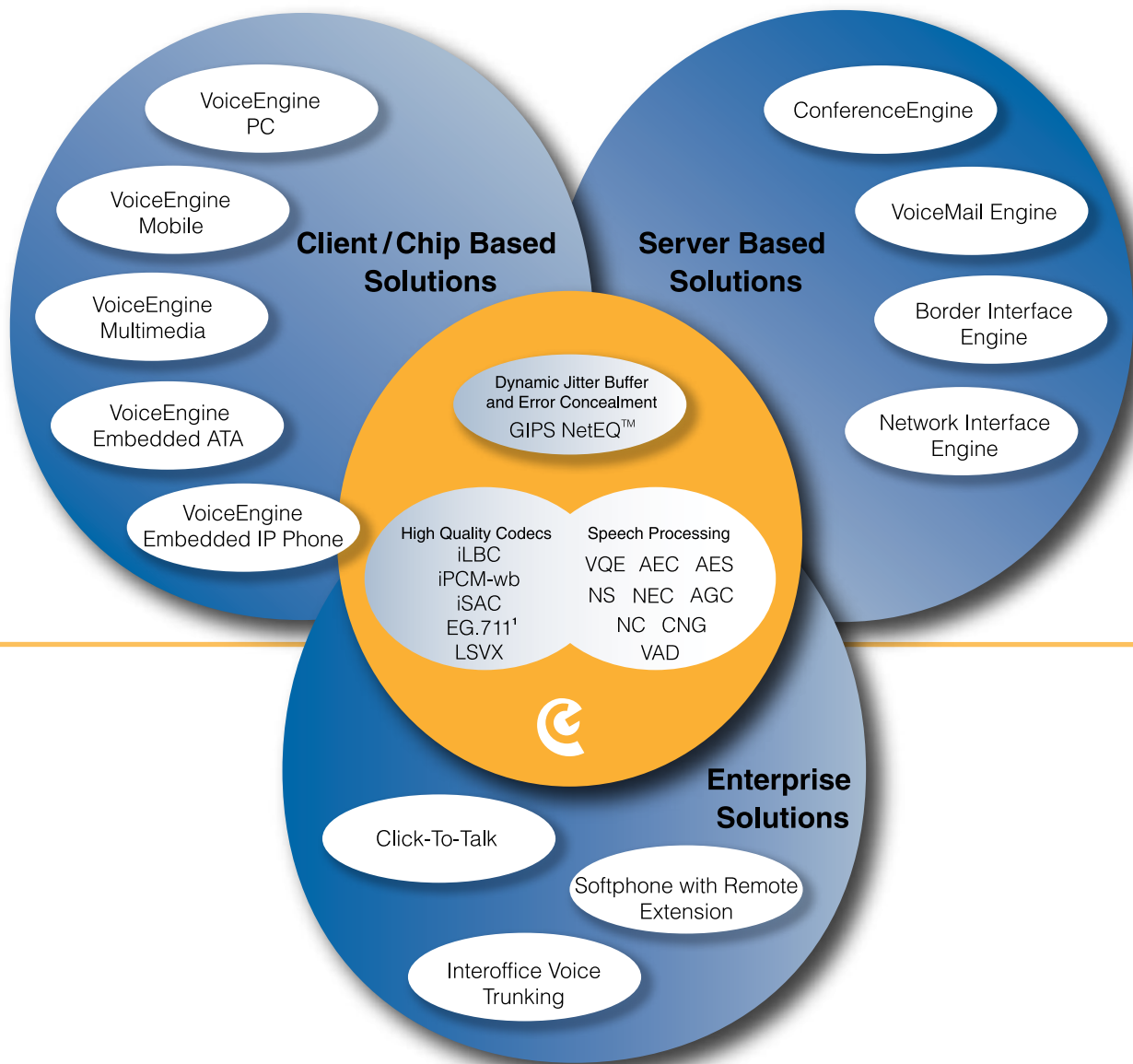
## **WHAT WE DO**

For any provider seeking to develop or deploy an IP-based communications product, embedded media processing software is an essential component. Development of a robust media processing solution requires a substantial investment and a dedicated research and development team that is often far removed from the core competency of the provider.

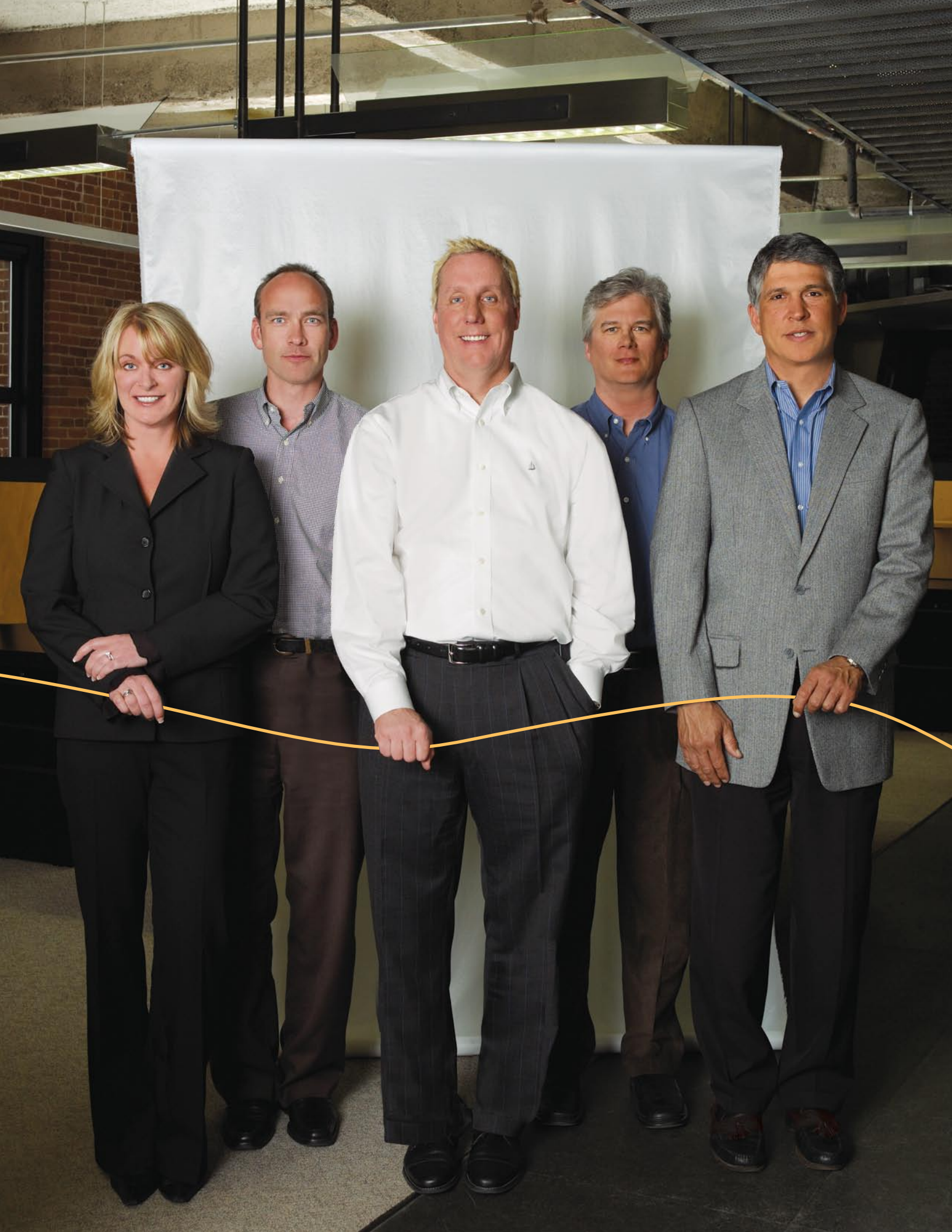
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Since 1999, Global IP Solutions software has become the de facto standard for these IP communications providers. By hiding the associated complexities with our patented embedded media processing software, GIPS offers customers a simple plug-and-play solution that results in rapid time to market with the highest possible quality.

Industry leadership is maintained through forging close relationships with customers and partners to deliver cutting-edge and industry-leading solutions to market. Customers and partners include service providers, application developers and equipment manufacturers, allowing GIPS unique access and understanding of the complete IP communications value chain.









## OUR MANAGEMENT TEAM

### **Gary Hermansen, President and Chief Executive Officer** *(pictured center)*

Gary has over 20 years of engineering, sales and business experience in the telecommunications, Internet and semiconductor industries. In addition to his tenure as CEO of Brightmail, he was President and GM of Glenayre Consumer Products and held senior positions at Wireless Access, Cypress Semiconductor and Intel.

### **Edward M. Abbati, Executive Vice President of Operations** *(pictured center-right)*

Edward has been with Global IP Solutions for over six years. Prior to his appointment as EVP of Operations, he served as our CFO. Before joining Global IP Solutions, he was the VP of Finance at Intarka and Corporate Controller at Autodesk Ventures and Micro-Focus. Edward has an MBA from the University of San Francisco.

### **Dr. Roar Hagen, Chief Technology Officer** *(pictured on next page)*

Roar began his research in speech processing and coding in 1989. Prior to co-founding GIPS, he logged successful careers at Bell Laboratories and Ericsson Research. He holds a doctorate in Electrical Engineering from Chalmers University of Technology and an M.Sc. in Physics from the Norwegian Institute of Technology. Roar has filed more than 10 patents.

### **Dr. Jan Linden, Vice President of Engineering** *(pictured center-left)*

Jan has been conducting research and development in speech processing and communications for the last 15 years. Prior to joining Global IP Solutions, he was with the University of California, Santa Barbara and SignalCom. He holds a doctorate and a M.Sc. in Electrical Engineering from Chalmers University of Technology. He has filed several patents.

### **William Scharninghausen, Chief Financial Officer** *(pictured right)*

Bill brings nearly 30 years of financial executive experience. Most recently, he served as CFO at Teachscape. Previously he was an executive at Vialta, DIVA Systems and StarSight Telecast where he was on the team that led the company through its IPO. Bill is a CPA and has a degree in Business and Finance from the California Polytechnic State University.

### **Wendy Toth, Vice President of Marketing** *(pictured left)*

Wendy has 20 years of strategic product and corporate marketing experience. Prior to joining Global IP Solutions, she held executive management positions at Knight Ridder, Personify and Tessera Enterprise Systems. Wendy has a BA in Journalism from the University of Minnesota and an MBA from the University of St. Thomas.

## HOW IT ALL STARTED

Global IP Solutions was founded in 1999 in Sweden. Although today a worldwide company with offices in Stockholm, San Francisco, Boston, Santa Barbara, Hong Kong, Seoul and New Delhi, the corporate culture of GIPS is decidedly Scandinavian.

Having a thoughtful disregard for convention is the genesis of GIPS' innovation. The beginnings of the company itself are credited to two pundits of the media processing industry, Professor Bastiaan Kleijn (*pictured top*) and Dr. Roar Hagen (*pictured bottom*).



Bastiaan has nearly 25 years of research and development experience in speech and audio processing, including 12 years at Bell Laboratories. Today he is a Professor at the distinguished Royal Institute of Technology, Sweden, where he heads the Sound and Image Processing Laboratory. Bastiaan remains the Chief Scientist for GIPS.



Roar also spent more than a decade researching speech processing and coding for Bell Laboratories and Ericsson Research. He remains the Chief Technology Officer for GIPS and a member of GIPS management team.

While responsible for developing major technologies utilized today in cellular and circuit-switched networks, the two realized that the deficiencies

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and characteristics of packet-switched networks would require unique, well-defined techniques.

From its inception, Global IP Solutions has pioneered the development of voice processing technologies designed specifically for real-time communications over IP networks. Today, GIPS is expanding those same high standards to video. GIPS products are integrated into VoIP-enabled systems and software applications from long-time leaders in telecommunications as well as a diverse array of growing companies.

Original ideas are what ultimately give value to companies. And GIPS holds more crucial patents than any other company in our VoIP processing space, which allow us to provide the best technology for our customers.

# 600 MILLION

GIPS products are the engines behind applications like Skype and Yahoo! Messenger® with Voice that have brought real-time communication over the Internet into the mainstream. There are over 600 million downloads of GIPS' software in the market today.

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# VoIP MARKET

“The stocks that generate the most spectacular returns are small companies that become big companies. GIPS has huge potential to be that stock, as it is a crucial player in the VoIP market.”

Michael Moe, Chairman & CEO Think Equity Partners LLC and author of “Finding the Next Starbucks”

*Back in 1992, stock analyst Michael Moe predicted that a humble Seattle coffee company would become a long-term superstar. Since then he's made similar great calls in high technology.*





## INDUSTRY OVERVIEW

Internet Protocol-based communications, which allows the rapid transmittal of voice, video or data over packet-based networks is clearly the future of communications.

In North America alone, more than one-third of large companies have adopted VoIP. Analysts project that two-thirds will have done so by 2011.<sup>2</sup> On the consumer side, North American revenues are forecasted to reach over \$4 billion by 2010.

In Asia, where the number of broadband subscribers is set to triple in the next five years, total revenue from VoIP services will exceed \$10 billion by 2009.<sup>3</sup>

Worldwide, residential VoIP subscriptions are predicted to balloon from 38 million users to more than 267 million by 2012.<sup>4</sup>

Mobile VoIP is expected to account for nearly 30 percent of all mobile calls in Europe and North America by 2015.<sup>5</sup>

Yet, for all this expansion, the industry is experiencing “convergence.” The methods of managing voice and data are becoming one. The value of every device you own — television, phone, PDA — will be defined by its ability to leverage the Internet.

For manufacturers, simply providing a VoIP-enabled product is no longer a unique proposition.

Today, companies must differentiate their offering and deliver tailored VoIP solutions. That is why they look to GIPS. We provide best-in-class voice and video for enterprises, applications developers, service providers, network equipment, gateway and chip manufacturers. Our proven technology inspires engineers, heightens the end-user experience, ensures the proliferation of quality VoIP applications and spurs the growth of the industry.

## **DISRUPTIVE INNOVATION**

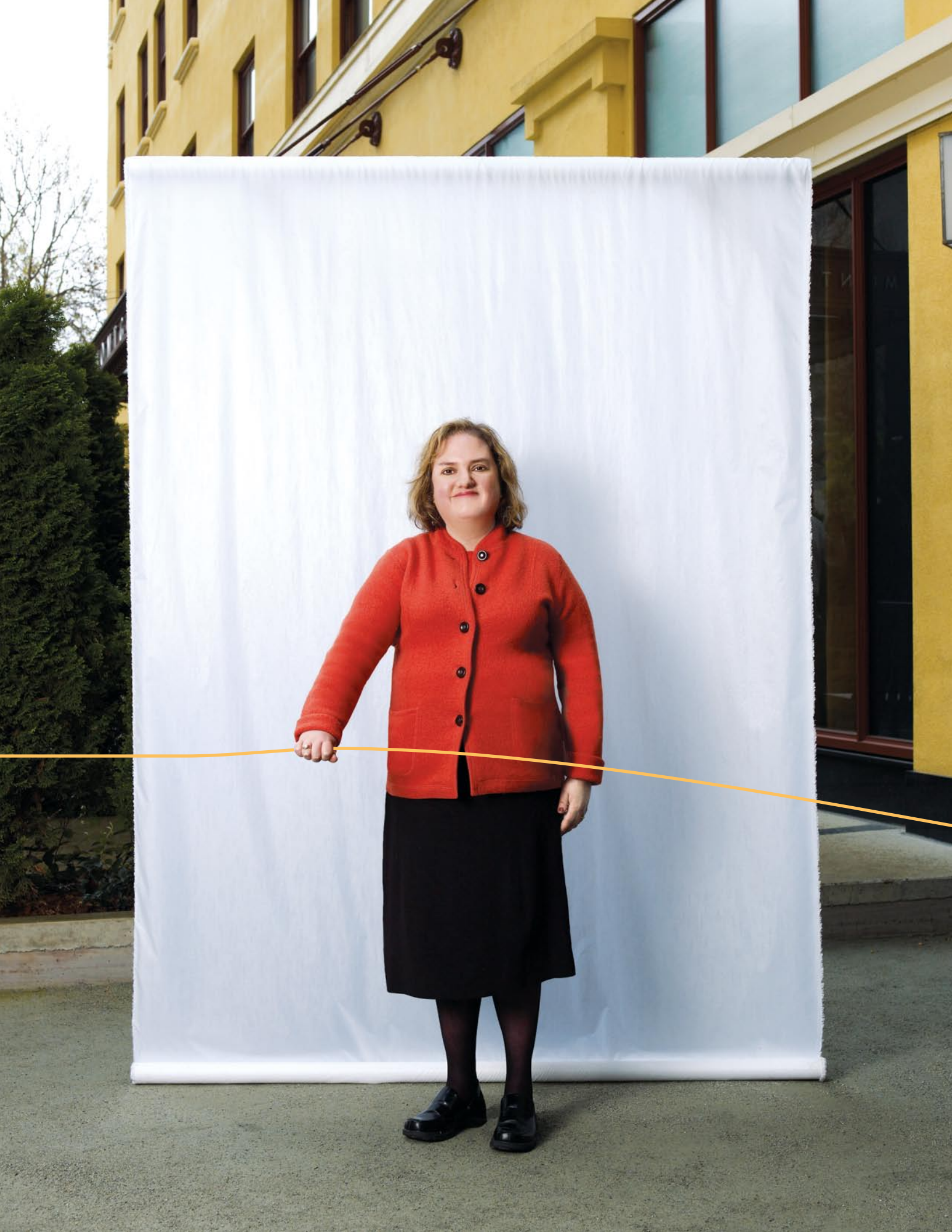
When GIPS was founded in 1999, we developed a series of voice processing components that were focused on delivering high-quality voice over IP solutions. From 1999 to 2002, the opportunity was in the hardware market; gateways, IP phones, enterprise-driven solutions that catered largely to the Ciscos and Nortels of the world.

From 2001 until today, the market has migrated toward applications, with companies such as AOL, Google, Skype and Yahoo! being the catalysts for the peer-to-peer instant messaging phenomenon. It was during this time that we took the same technologies that we had created for the hardware space and expanded it to a comprehensive suite of Voice Engines for client solutions on Windows, Mac and Linux. Today, IP communications are expanding beyond voice over instant messaging to include video and being integrated into applications such as gaming, collaboration and conferencing. We are the key driver in helping these companies introduce voice and video into their products.

More recently, we are seeing the emergence of mobile solutions for Pocket PC, Symbian and OSE. Fixed-mobile convergence is the driving force in the expansion of technologies from the desktop to the mobile handset and will be a motivating factor in the innovative and creative development of new IP communications products.

In today's market, customer demand again draws our focus to our initial market and requires carefully considered strategies. Compatibility and interoperability with existing applications in the market is crucial and equipment manufacturers are leveraging our media processing capabilities as essential components in their underlying hardware.





# REAL-TIME

“VoIP is evolving rapidly in the telecommunications market and GIPS is a crucial pillar of VoIP. GIPS MediaEngines and Enterprise Solutions demonstrate real-time technology leadership in the industry.”

Lynda Starr, Senior IP Communications Analyst Frost & Sullivan

*Acclaimed for her research, Lynda focuses on monitoring and analyzing emerging trends, technologies and market dynamics in the enterprise and consumer IP communication services markets.*



## LOOKING BACK AND PROGRESSING FORWARD

Overall, 2006 was a good year.

We just about doubled the size of the organization, doubled the revenue and the market opportunities, and have now experienced substantial year-over-year growth.

IBM Lotus, Oracle and SK Communications were new key customers. We expanded our relationships with Texas Instruments, Yahoo! and Net2Phone. We partnered with industry-leading companies like Analog Devices and Paradiol to further extend our product offering.

GIPS acquired exclusive rights to Espré Solutions' patented LSVX video codec technology. We chose LSVX for its performance, even over narrow bandwidth. By applying our expertise in real-time, two-way communication over packet networks to this existing base, we are able to deliver the customer a superior experience. This video technology has been incorporated into all our client and server engines enabling our customers to rapidly deliver real-time multimedia.

To address the Enterprise market, GIPS acquired CrystalVoice Communications, a company that offers targeted solutions such as GIPS' softphone with Remote Extension<sup>6</sup> and Click-to-Talk.<sup>7</sup>

We've recently introduced Interoffice Voice Trunking,<sup>8</sup> offering Enterprise customers high-quality voice across both IP based and traditional PBX networks.

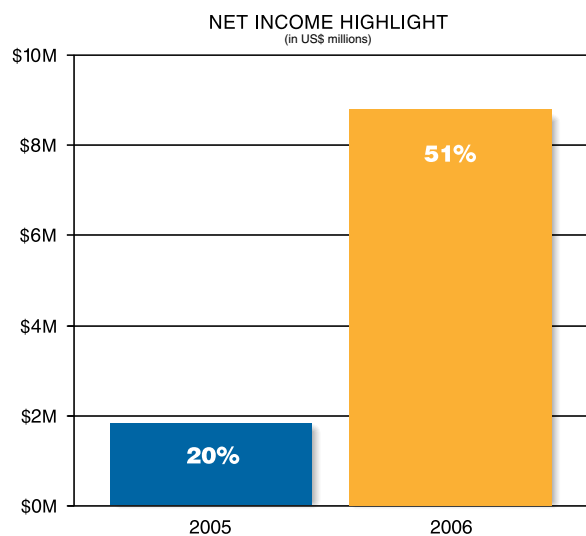
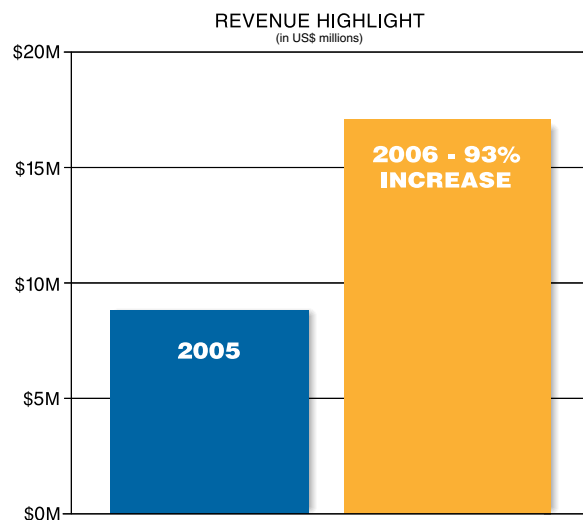
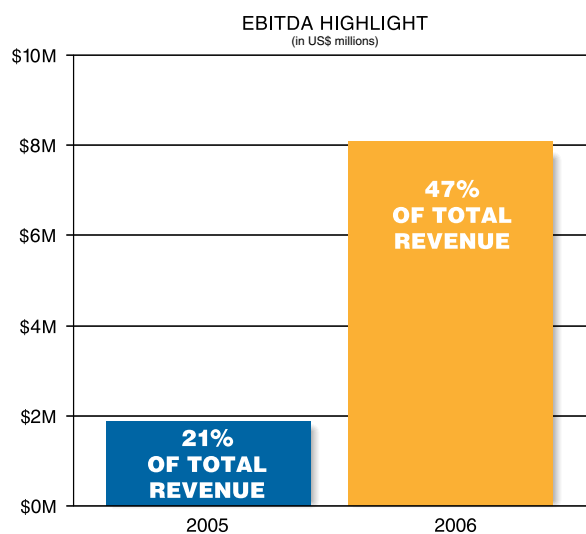
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In recognition of the importance of security, we have developed a Network Module enabling secure and efficient IP communication services through any firewall set-up, creating a market-leading Firewall/NAT traversal solution.

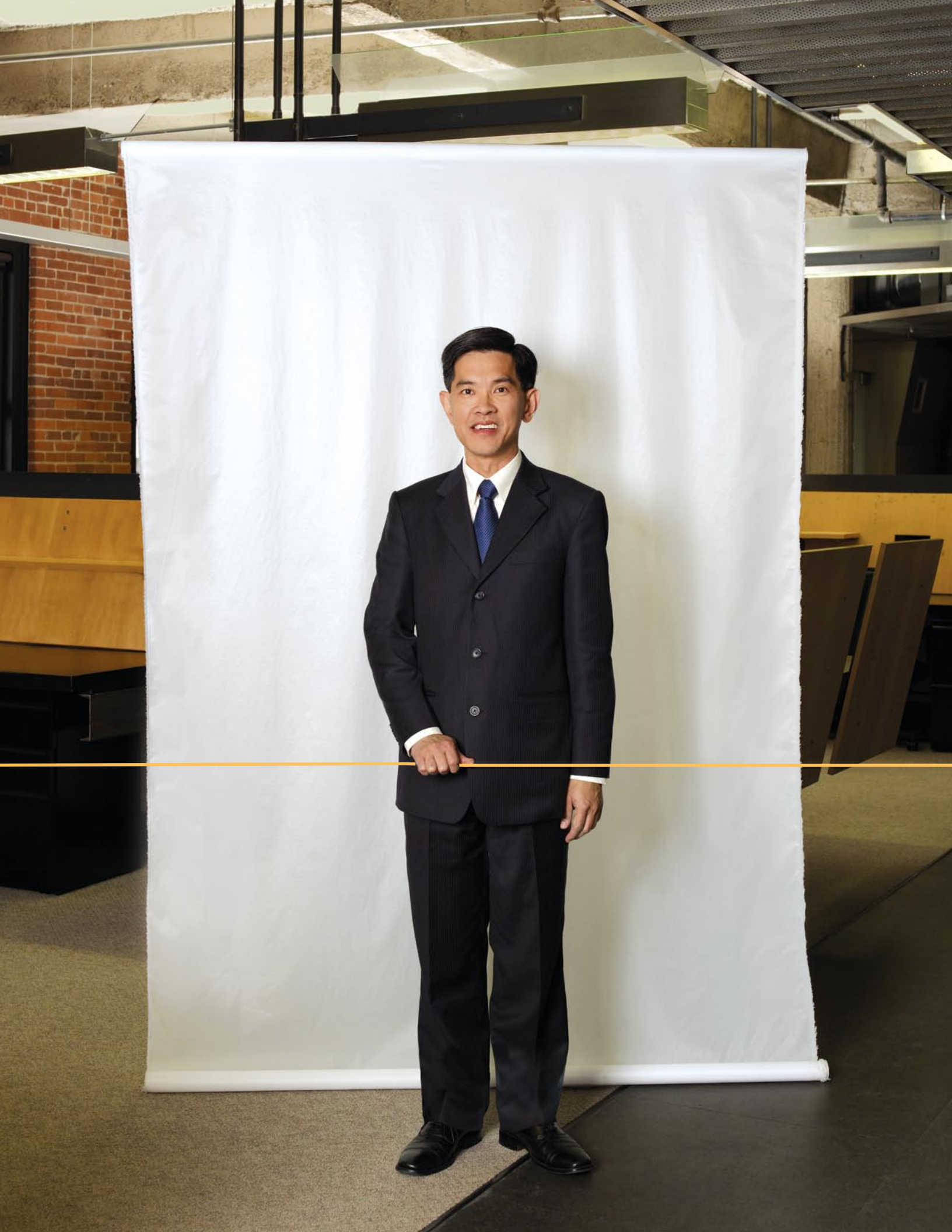
Reflecting our new capacity to deliver outstanding Enterprise-level solutions, we have reorganized into two business units: GIPS MediaEngines and GIPS Solutions.

We are also targeting the dual-mode Wi-Fi device market with our Voice Engine Mobile. Our relationship with Samsung, a leading handset manufacturer, will maximize our opportunities in the dynamic mobile market.

We will continue to expand and enhance our product offerings and we will keep innovating and developing, because what was leading technology one day is being lead the next.







# REVOLUTION

“With our roots in Asia and our extensive international telecommunication background, e-KONG’s operating companies provide unique flexibility in providing businesses and consumers with superior and innovative telecommunication services. Global IP Solutions enabled us to offer our customers that high quality communication, which is vital to our industry.”

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SG Lim, Executive Director e-KONG







# EXPERTISE

“In a world where in-person conferencing is sometimes impractical, WebEx offers solutions for organizations worldwide to meet their most ambitious goals. Our GIPS-enabled solutions allow enhanced conferencing features to be a cornerstone of WebEx solutions.”

Gary Griffiths, President WebEx Products & Operations

## ADMINISTRATION REPORT

(in thousands)

The Annual Report refers to the Company's fiscal year from the date January 1, 2006 to December 31, 2006.

## INFORMATION ABOUT BUSINESS ACTIVITIES

Global IP Sound AB (the Company) develops and markets software for the communications industry and provides products and services that enable high quality, real-time communications over packet networks. The Company operates its business in the US, Europe and Asia through its subsidiary, Global IP Sound Inc. In the first quarter of 2007, Global IP Sound Inc. changed its name to Global IP Solutions Inc.

Revenues for the year were SEK 126,032, a 91 percent increase over 2005. Royalty revenue increased during the year to 45 percent of total revenue, up from 32 percent of revenue in 2005. Operating expenses were SEK 52,522, a 25 percent increase over the previous year. Operating Profit for the year was SEK 57,071 compared to SEK 12,908 in 2005.

The Company reported a Result after Financial Items of SEK 61,057 for the year, compared to 14,643 in 2005. The improved performance was the result of increased sales volume, a focus on cost containment, and the positive impact of two non-standard events. The Company favorably settled a lawsuit of 22,040 SEK and received other income of 6,375 SEK in connection with a new share issue in a subsidiary to employees due to an option program. The Company later repurchased most of these shares, which led to goodwill of 18,001 SEK.

The Company posted a Net Result of SEK 64,617 in 2006, compared to SEK 13,319 for the prior year. The Company's Net Result, excluding the effect of the two non-standard events mentioned above, would have been approximately SEK 46,132. As of December 31, 2006, Cash and Equivalents were SEK 108,297. Given the improved earnings during the year, the Company has recognized further deferred tax assets of 4,770 SEK.

During 2006, the Company signed agreements with numerous customers such as Oracle, Texas Instruments, SK Communications, Siemens, and many others. Market position was again improved, and the Company now has over 150 active customers worldwide.

The GIPS product portfolio continued to expand in 2006 with the introduction of Border Interface Engine and Network Interface Engine, two new products that handle de-jittering and transcoding for server-based products and gateway solutions, and a new version of the iSAC codec that is optimized for use in hardware devices. The company signed an exclusive license agreement with Espre Solutions for their video technology, which is now integrated into the company's existing product portfolio. The company expanded its patent portfolio to include 9 mature patent applications granted in various jurisdictions, and filed two new patent applications for conference mixing and codec technology. At year-end, GIPS employed 27 engineers, and will continue to invest in developing technologies and products to maintain its industry leading position.

The Company remains optimistic about the future. Strategic relationships have been strengthened with previously existing customers, such as Nortel, Marvell, Yahoo!, IBM, and others. Expanded product offerings, continued growth in the VoIP market, a healthy cash position, and the acquisition of Crystal Voice Communications position the company for strong growth potential in 2007.

During 2006, a new share issue was completed, which raised 12,400 SEK of new capital for the Company (see footnote 17), primarily from warrants exercised by the Company's former CEO. The Company is expecting improved cash flow from operations in 2007. The Company's shares are traded on the unquoted list at the Oslo Stock Exchange in Oslo, Norway.

The Company's registered office is located in Stockholm, Sweden.

### PROPOSED TREATMENT OF PROFIT (LOSS)

Following means are at the Annual General Meeting's disposal:

Parent Company	Amount
Share premium reserve	12,291,473
Balance brought forward	(38,326,818)
Net profit (loss) for the year	(2,234,439)
Total	(28,269,784)

The board of directors and the managing director propose that the Parent Company's accumulated loss, KSEK -28,270, be carried forward.

All amounts are given in thousands Swedish kronor if nothing else is stated.

Summary covering several years (group)

Year	2006	2005	2004	2003
Net turnover	126,032	66,138	27,301	7,432
Result after financial items	61,057	14,643	(49,007)	10,937
Balance sheet total	215,832	147,985	67,591	68,787
Solvency (%)	81%	76%	63%	82%
Employees	56	35	24	21

**CONSOLIDATED INCOME STATEMENT**

	Note	1/1/2006 12/31/2006	1/1/2005 12/31/2005
Net turnover	2	126,032	66,138
Cost of goods sold	2,3,4,5	(16,439)	(11,185)
<b>Gross profit</b>		109,593	54,953
<b>Information about the business activities</b>			
Selling expenses		(38,414)	(20,285)
Administrative expenses	6	(24,130)	(13,661)
Research and development costs		(18,393)	(8,099)
Other income		28,415	0
<b>Operating Profit (loss)</b>		57,071	12,908
<b>Result from financial investments</b>			
Other interest income and similar profit/loss items	7	5,050	2,334
Interest expenses and similar profit/loss items		(1,063)	(599)
<b>Total result from financial investments</b>		3,986	1,735
<b>Result after financial items</b>		61,057	14,643
Tax on result of the year	18	3,560	(1,324)
<b>Net result for the year</b>		64,617	13,319

**CONSOLIDATED BALANCE SHEET****ASSETS**

	Note	12/31/2006	12/31/2005
<b>Assets</b>	1		
Fixed assets			
Intangible fixed assets			
Patents	8	2,610	2,100
Software	9	14,888	1,815
Goodwill	9	17,552	0
		35,050	3,915
Tangible fixed assets			
Plant and machinery	10	585	345
Equipment, tools, fixtures and fittings	11	186	50
Costs of improvements to property	12	325	27
		1,096	422

**CONSOLIDATED BALANCE SHEET**  
**ASSETS (continued)**

	<b>Note</b>	<b>12/31/2006</b>	<b>12/31/2005</b>
Financial fixed assets			
Deposits		1,263	1,143
Deferred Tax Asset	18	17,054	12,284
		<u>18,317</u>	<u>13,427</u>
Total fixed assets		<u>54,463</u>	<u>17,764</u>
Current assets			
Account receivable-trade		38,476	19,857
Other current receivables		10,606	798
Prepaid expenses and accrued income	13	3,990	1,048
		<u>53,072</u>	<u>21,703</u>
Cash and bank balance		<u>108,297</u>	<u>108,518</u>
		<u>108,297</u>	<u>108,518</u>
Total current assets		<u>161,369</u>	<u>130,221</u>
Total assets		<u>215,832</u>	<u>147,985</u>

**CONSOLIDATED BALANCE SHEET**  
**EQUITY AND LIABILITIES**

	<b>Note</b>	<b>12/31/2006</b>	<b>12/31/2005</b>
<b>Equity</b>	14,17,19		
<b>Restricted equity</b>			
Share capital		5,414	5,305
Restricted reserves		201,227	271,584
Total restricted equity		<u>206,641</u>	<u>276,889</u>
<b>Non-restricted equity</b>			
Unrestricted reserves		(97,119)	(178,364)
Net profit (loss) of the year		64,617	13,319
Total non-restricted equity		<u>(32,502)</u>	<u>(165,045)</u>
<b>Total equity</b>		<u>174,139</u>	<u>111,844</u>

**CONSOLIDATED BALANCE SHEET**  
**EQUITY AND LIABILITIES (continued)**

**Long-term liabilities**

Long-term note

**Total long-term liabilities**

Minority Interest in Subsidiary

**Current liabilities**

Accounts payable - trade

Other current liabilities

Accrued expenses and deferred income

**Total current liabilities**

**Total equity and liabilities**

**Pledged assets**

Balders Fastigheter AB

**Contingent liabilities**

Note

12/31/2006

12/31/2005

321

321

321

321

130

0

8,172

1,900

281

453

32,789

33,467

41,242

35,820

215,832

147,985

400

400

None

None

**CONSOLIDATED CASH FLOW STATEMENT**

Note

1/1/2006  
12/31/2006

1/1/2005  
12/31/2005

**Operating activities**

Result after financial items

Depreciation

Tax paid

**Cash flow from operating activities**

**before changes in working capital**

61,057

14,643

1,278

1,820

4,859

(26)

67,194

16,437

**Changes in working capital**

(Increase) decrease in receivables

Increase (decrease) in liabilities

**Cash flow from operating activities**

6,313

(31,219)

(43,236)

48,424

30,271

33,642

**Investing activities**

Acquisitions of intangible assets

Acquisitions of machinery and equipment

Investment in financial assets

Loans provided

**Cash flow from investing activities**

(36,266)

(2,972)

(643)

(882)

(120)

985

0

(77)

(37,029)

(2,946)

**CONSOLIDATED CASH FLOW STATEMENT**  
(continued)

**Financing activities**

Share premium upon issue of new shares

12,783 51,309

New share issuance in subsidiary

8,860 0

**Cash flow from financing activities**

21,643 51,309

**Cash flow for the year**

14,885 82,005

Liquid funds at the beginning of the period

108,518 21,791

Exchange difference, liquid funds

(15,105) 4,722

**Liquid funds at the end of the year**

108,298 108,518

**PARENT COMPANY INCOME STATEMENT (SEK)**

**Note**

Administrative expenses

2,3,5,6

(2,262) (178)

**Operating Profit (loss)**

(2,262) (178)

**Result from financial investments**

Other interest income and similar profit/loss items

7

38 320

Interest expenses and similar profit/loss items

(10) 0

**Total result from financial investments**

28 320

**Result after financial items**

18

(2,234) 142

**Net result for the year**

(2,234) 142



**PARENT COMPANY BALANCE SHEET**  
**ASSETS**

	Note	12/31/2006	12/31/2005
<b>Assets</b>	1		
Fixed assets			
Financial fixed assets			
Shares in group activities	16	210,340	189,853
		210,340	189,853
<b>Total fixed assets</b>		210,340	189,853
<b>Current assets</b>			
Receivables from group companies		9,629	21,006
Other current receivables		2	2
Prepaid expenses and accrued income	13	142	8
		9,773	21,016
Cash and bank balance		6,509	4,593
<b>Total current assets</b>		16,282	25,609
<b>Total assets</b>		226,622	215,462

**PARENT COMPANY BALANCE SHEET**  
**EQUITY AND LIABILITIES**

	Note	12/31/2006	12/31/2005
<b>Equity</b>	14, 17, 19		
Restricted equity			
Share capital (54,138,918 shares)		5,414	5,305
Other reserves		247,965	247,965
		253,379	253,270
Non-restricted equity			
Share premium reserve		12,291	0
Loss brought forward		(38,327)	(38,469)
Net profit (loss) for the year		(2,234)	142
Accumulated loss		(28,270)	(38,327)
<b>Total equity</b>		225,109	214,943

**PARENT COMPANY BALANCE SHEET**  
**EQUITY AND LIABILITIES (continued)**

**Note**

**12/31/2006**

**12/31/2005**

**Current liabilities**

Accounts payable - trade

25

70

Investment in subsidiary - europe

629

239

Accrued expenses and deferred income

15

859

210

**Total current liabilities**

1,513

519

**Total equity and liabilities**

226,622

215,462

Pledged assets

400

400

Balders Fastigheter AB

Contingent liabilities

None

None

**PARENT COMPANY CASH FLOW STATEMENT**

**Note**

**1/1/2006  
12/31/2006**

**1/1/2005  
12/31/2005**

**Operating activities**

Result after financial items

(2,234)

142

**Cash flow from operating activities**

**before changes in working capital**

(2,234)

142

**Changes in working capital**

(Increase) decrease in receivables

11,241

(1,012)

Increase in liabilities

605

199

**Cash flow from operating activities**

9,612

(671)

**Investing activities**

Investment in financial assets

(20,097)

(45,736)

**Cash flow from investing activities**

(20,097)

(45,736)

**Financing activities**

Share premium upon new issue of shares

12,401

46,486

**Cash flow from financing activities**

12,401

46,486

**Cash flow for the year**

1,916

79

Liquid funds at the beginning of the year

4,593

4,514

**Liquid funds at the end of the year**

6,509

4,593

## NOTES TO THE FINANCIAL STATEMENTS, APPLICABLE TO THE PARENT COMPANY AND GROUP

### Note 1 Accounting principles

#### Information about the business activities

The annual report has been prepared according to the Annual Accounts Act and to the Swedish Accounting Standards Board.

#### Consolidated financial statements

The consolidated financial statements include subsidiaries, where the parent company directly or indirectly holds more than 50% of the votes.

The consolidated financial statements have been prepared in accordance with the acquisition accounting method, which means that the subsidiaries' equity at the date of acquisition, defined as the difference between the fair values of the assets and liabilities, is eliminated in full. Thus, the group equity includes only the portion of the subsidiaries' equity which has been added after the date of acquisition.

If the acquisition value of the shares on consolidation exceeds the value of the subsidiary's net assets stated in the acquisition analysis, the difference is stated as goodwill on consolidation. If instead, the acquisition value of the shares on consolidation is less than the value of the company's net assets stated in the acquisition analysis, the difference is accounted for as a provision for negative goodwill. The provision is dissolved on the basis of expectations regarding the earnings trend.

The company applies the current method for the translation of the financial statements of foreign subsidiaries. This means that the assets and liabilities of the foreign subsidiaries are translated at the closing rate. All items included in the income statement are translated at the average rate for the year. Translation differences are taken directly to group equity.

If the parent company or another group company has taken measures to balance or hedge against exchange differences regarding a net investment in an independent subsidiary, the exchange difference in the hedge instrument is taken directly to equity, in so far as it is matched by a translation difference reported during the year for the subsidiary.

In case there is a difference in the valuation of assets and liabilities at group level and company level, the tax effect is taken into account and is reported either as a deferred tax asset or a deferred tax liability.

Inter-company profits are eliminated in full, i.e. without taking account of minority interests.

Minority interests in the result for the year of 130 KSEK are shown in the consolidated financial statements, presented separately from long-term liabilities in the consolidated balance sheet.

#### Revenue Recognition

License fees for software are recognized:

1. When the contract is signed and delivery has occurred
2. When the price and payment plan are established
3. When payment is plausible

Support and royalty revenue are recognized linear over the life of the contracts.

#### Receivables

Receivables are stated in the amounts estimated to be received on the basis of individual assessment.

In addition to the company's accounts receivable balances, the company had 22,306 KSEK as of December 31, 2006 in future contractual obligations due from customers which remain to be invoiced. The company will record these amounts as accounts receivable when the customers are subsequently invoiced.

## Foreign currencies

Receivables and payables in foreign currencies are valued at the closing rate. Where hedging measures have been taken, such as forward contracts, the forward rates are used. Gains and losses on receivables and payables relating to operations are accounted for net under other operating income or, alternatively, other operating expenses.

## Fixed assets

Tangible and intangible fixed assets are depreciated/amortized systematically over their estimated useful lives. The following periods of depreciation/amortization are applied:

	Number of Years
Patents	7
Goodwill	5
Software	3
Equipment, tools, fixtures and fittings	5
Improvements to property	Written down over the term of the lease

## Research and development

Costs for research and development work are normally expensed as they arise.

## Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. The reported cash flow comprises only transactions leading to inward and outward payments. The cash flow is allocated to:

- operating activities,
- investing activities and
- financing activities.

## Note 2 Inter-company purchases and sales

### Parent company

Of the company's net sales, sales to subsidiaries account for SEK 0.  
Of the company's purchases, purchases from subsidiaries account for KSEK 0.  
Interest income from subsidiaries account for KSEK 1,005 ( KSEK 1,016).

For inter-company purchases and sales, the pricing principles applied are the same as for transactions between external parties.

## Note 3 Depreciation, amortization, write-downs and reversals

Depreciation of tangible fixed assets amounted to KSEK 252 (KSEK 839) group and KSEK 0 (KSEK 0) for the parent company.

## Note 4 Cost of goods sold

As part of an overall licensing agreement the company has given Nortel Networks 2,682,661 in common stock warrants that have effected Cost of Goods Sold with KSEK 2,605 (KSEK 2,529)

**Note 5 Average number of employees, wages, salaries, other emoluments and social security contributions**

The average number of employees, men and women, was

**Group**

	1/1/2006 12/31/2006	1/1/2005 12/31/2005
Women	11	6
Men	45	29
Total for group	56	35

Wages, salaries and emoluments paid to

President and board of directors	3,019	3,019
Other employees	32,432	20,399
Total wages, salaries and emoluments	35,451	23,418

Statutory and contractual social security contributions

Pension costs ((of which for board and managing director KSEK 97 (116))	5,725	2,908
	970	732

Total wages, salaries, emoluments, social security contributions and pension costs for group

	42,146	27,058
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**Board members and executive officers**

	<b>2006</b>		<b>2005</b>	
	Number on balance day	Whence Men	Number on balance day	Whence Men
Board members	6	100%	6	100%
CEO and other executive officers	7	71%	6	100%

**Sick leave**

Total sick leave	0.45%	0.63%
- long-term	0.00%	0.00%
- sick leave men	0.47%	0.41%
- sick leave women	0.35%	0.50%

**Note 6 Fees and remuneration**

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**Group**

Accounting fees	452	648
Other fees	295	0
Total	747	648

**Note 7 Other interest income and similar profit/loss items**

**Group**

Interest income	5,242	2,329
Total	5,242	2,329

**Parent company**

Interest income	1,089	1,325
Total	1,089	1,325

Of which relating to group companies

	1,005	1,016
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**Note 8 Patents****12/31/2006****12/31/2005****Group**

Patents		
Balance brought forward	2,611	1,786
Capitalized costs	1,044	825
Closing accumulated acquisition values	3,655	2,611
Balance brought forward	(511)	(254)
-Depreciation	(509)	(291)
-Disposal	0	0
-Currency translations	(25)	34
Closing accumulated depreciation	(1,045)	(511)
Closing residual value according to plan	2,610	2,100

**Note 9 Software and other intangibles****12/31/2006****12/31/2005****Group**

Balance brought forward	2,350	240
Acquisition of goodwill	18,001	0
purchases of intangibles	15,735	2,020
-Currency translations	(1,698)	91
Closing accumulated acquisition values	34,388	2,350
Balance brought forward	(535)	(170)
-Depreciation	(1,651)	(329)
-Currency translations	238	(36)
Closing accumulated depreciation	(1,948)	(535)
Closing residual value according to plan	32,440	1,815

**Note 10 Plant and machinery****12/31/2006****12/31/2005****Group**

Balance brought forward	3,773	3,350
-Purchases	432	199
-Currency translations	(475)	224
Closing accumulated acquisition values	3,730	3,773
Balance brought forward	(3,427)	(3,202)
-Depreciation	(185)	(104)
-Currency translations	467	(121)
Closing accumulated depreciation	(3,145)	(3,427)
Closing residual value according to plan	585	345

**Note 11 Equipment, tools, fixtures and fittings****12/31/2006****12/31/2005****Group**

Balance brought forward	1,773	1,617
-Purchases	211	6
-Currency translations	128	150
Closing accumulated acquisition values	2,112	1,773
Balance brought forward	(1,723)	(1,293)
-Depreciation	(68)	(305)
-Currency translations	(135)	(125)
Closing accumulated depreciation	(1,926)	(1,723)
Closing residual value according to plan	186	50

**Note 12 Costs of improvements to property****12/31/2006****12/31/2005****Group**

Balance brought forward	2,658	2,259
-Purchases	0	0
-Currency translations	(27)	399
Closing accumulated acquisition values	2,631	2,658
Balance brought forward	(2,631)	(2,027)
-Depreciation	0	(102)
-Currency translations	325	(502)
Closing accumulated depreciations	(2,306)	(2,631)
Closing residual value according to plan	325	27

**Note 13 Prepaid expenses and accrued income****12/31/2006****12/31/2005****Group**

Prepaid rents	1,176	350
Accrued interest income	1	1
Prepaid insurance	452	216
Other prepaid expenses	2,361	481
Total	3,990	1,048

**Parent company**

Accrued interest income	0	1
Other prepaid expenses	142	7
Total	142	8



**Note 14 Change in equity****12/31/2006****12/31/2005****Group****Restricted equity****Share capital**

Amount at the beginning of the year	5,305	4,955
New capital issue	109	350
Amount at the end of the year	5,414	5,305

**Restricted reserves**

Amount at the beginning of the year	271,584	229,485
New capital issue	0	55,681
Change in exchange difference	(14,722)	0
Adjustment from restricted equity to non-restricted equity	(55,635)	(13,582)
Amount at the end of the year	201,227	271,584
Total restricted equity at the end of the year	206,641	276,889

**Non-restricted equity**

Amount at the beginning of the year	(165,045)	(191,946)
Adjustment from restricted equity to non-restricted equity	55,635	13,582
New capital issue	12,291	0
Net result of the year	64,617	13,319
Total non-restricted equity at the end of the year	(32,502)	(165,045)

**Parent company****12/31/2006****12/31/2005****Restricted equity****Share capital**

Amount at the beginning of the year	5,305	4,955
New capital issue	109	350
Amount at the end of the year	5,414	5,305

**Share premium reserve**

Amount at the beginning of the year	0	201,830
New capital issue	0	46,135
Transfer to non-restricted equity	0	(247,965)
Amount at the end of the year	0	0

**Statutory reserve**

Amount at the beginning of the year	247,965	0
Transfer from share premium reserve	0	247,965
Amount at the end of the year	247,965	247,965

Total restricted equity at the end of the year	253,379	253,270
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**Non-restricted equity**

Amount at the beginning of the year	(38,327)	(38,469)
New capital issue	12,291	
Net result of the year	(2,234)	142
Amount of the year	(28,270)	(38,327)

**Note 15** Accrued expenses and deferred income

**Group**

	1/1/2006 12/31/2006	1/1/2006 12/31/2006
Accrued holiday pay	1,638	1,299
Accrued social security contributions	230	313
Unearned revenue	15,404	26,458
Other items	15,517	5,396
Total	32,789	33,466

**Parent company**

Other items	859	210
Total	859	210

**Note 16** Shares in group companies

Company name	Corporate ID No.	Registered office	Ownership (%)
Global IP Sound Optioner AB	556585-5383	Stockholm, Sverige	100
Global IP Sound Inc.	94-3352605	San Francisco, USA	99,9
Global IP Sound Europe AB	556604-9366	Stockholm, Sverige	100
Global IP Sound Asia Pacific Ltd.	992662	Hong Kong, PRC	100

Parent company	Ownership (%)	Voting rights %	Number of shares	Book value
Global IP Sound Optioner AB	100	100	1 000	100,000
Global IP Sound Inc.	99,9	99,9	46,168,237	210,239,814
Sum				210,339,814

**Parent company**

	12/31/2006	12/31/2005
Balance brought forward	189,853	144,299
-Investments	20,487	45,554
Closing accumulated acquisition values	210,340	189,853
Closing residual value according to plan	210,340	189,853

Global IP Sound Optioner AB has share capital of SEK 100,000. Equity amounts to SEK 86,866.  
Net loss of the year amounts to SEK 950.

Global IP Sound Inc. has a share capital of SEK 144,629,517. Equity amounts to SEK 130,429,503.  
Net income for the year amounts to SEK 45,199,600.

#### Note 17 New Capital Issue

In 2006, the Company generated 12,400,848 in new capital. The source of those funds are describe below:

2006 Funding Activities	12,400,938
Issuance costs	(90)
	<u>12,400,848</u>

#### Note 18 Tax on result of the year

	12/31/2006	12/31/2005
Actual tax of the year	(1,686)	(26)
Deferred tax Sweden	(389)	(389)
Deferred tax USA	5,635	(909)
Sum	<u>3,560</u>	<u>(1,324)</u>

A deferred tax asset of 17,054 (12,284) KSEK consists of the temporary tax difference of the value of the patent in the subsidiaries Global IP Sound AB and Global IP Sound Inc. In 2006, a deferred tax asset of 6,069 KSEK was added for temporary tax differences from certain items within the tax provision of the year.

The parent company has an ongoing deficit of -63,103 KSEK from the prior year. Therefore, no income tax is paid in the parent company.

#### Note 19 Stock option plan to employees

During the year stock options has been offered to 2 executive personnel free of charge. An option program has been offered to years prior to similar executive personnel. Both programs are constructed so that the earning period is divided by on third each year after the assignment. In addition both of the programs durates over a period of five years, the options can't be transferred and earned pensions for fits if the possessor leaves the company. The exercise price is determined in accordance with the market value of the share at the time of the issuance.

Grant date	Issuance date	No.of participants	Exercise price NOK	Emitted	Outstanding options December 31st
2006-01-25	2011-01-25	2	30,94	100,000	100,000
				100,000	100,000

The amount above is accounted in financial statements.

Our audit report has been issued on 3/30/2007.

PricewaterhouseCoopers AB

Magnus Brändström

Authorized Public Accountant

Auditor in charge

Nicklas Kullberg

Authorized Public Accountant

## AUDIT REPORT

To the annual meeting of the shareholders of Global IP Sound AB (publ)  
Corporate identity number 556573-9017

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Global IP Sound AB (publ) for the year 2006. The company's annual accounts and the consolidated accounts are included in the printed version on pages 22-38. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the loss of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm

PricewaterhouseCoopers AB

Magnus Brändström

Authorized Public Accountant  
Auditor in charge

Nicklas Kullberg

Authorized Public Accountant

## **GIPS Board of Directors**

Ditlef de Vibe  
Chairman GIPS and CEO Kistefos Venture Capital AS

Allen Adams  
Chairman Cirries Technologies Inc.

Trym Skeie  
Chairman Skagerak Venture Capital AS

Bradley Sparks  
President & CEO Visualant

Åge Korsvold  
CEO Kistefos AS

Dr. Roar Hagen  
Chief Technology Officer, Global IP Solutions

## **Global IP Sound AB Stockholder Services**

Pareto is a Norwegian investment firm licensed to carry out broker-dealing and investment banking services in Norway and in the European Community with respect to all financial instruments including the shares issued by Global IP Sound AB ("GIPS") being a Swedish company traded in the OTC market in Oslo, Norway.

Pareto has entered into an Affiliate Service Agreement pursuant to SEC Rule 15a-6 with Nordic Partners Inc., a Delaware corporation with its principal place of business at 488 Madison Avenue, Suite 1706, New York NY 10022 ("Nordic Partners"). Nordic Partners and Pareto has also entered into a Clearing Agency and Business Service Agreement.

## **Global IP Solutions on the Internet**

If you are interested in learning more about Global IP Solutions, information can be found via the GIPS website on the Internet. (<http://www.gipscorp.com>) Stockholders of record can also sign up to receive future GIPS Annual reports online through the Internet at this site.

## **GIPS Stock**

Global IP Sound AB is currently listed on the Norwegian Over The Counter (OTC) Market.

## **General Information**

For answers to general questions please call the Investor Relations officer at +001 415 746-1155 or email [ir@gipscorp.com](mailto:ir@gipscorp.com)

Reference to \$US included in this document are unaudited.

## **Footnotes:**

- <sup>1</sup> Enhanced G.711 is a GIPS enhancement of the standard G.711 codec. When combined with GIPS NetEQ, Enhanced G.711 maintains PSTN (traditional phone) voice quality with up to 30 percent packet loss.
- <sup>2</sup> Frost & Sullivan
- <sup>3</sup> Frost & Sullivan
- <sup>4</sup> ABI Research
- <sup>5</sup> Analysys Research
- <sup>6</sup> Remote Extension (RE) provides remote connectivity for road warriors and telecommuters to a corporate IP-PBX system through a secure connection, excluding the need for expensive VPN systems. The remote user's PC becomes the PBX extension and provides truly better-than-PSTN call quality.
- <sup>7</sup> Click-to-Talk (CTT) enables website visitors to click a button and immediately connect - over the Internet - to a resource for assistance and information. It allows enterprises to integrate communication functionality to any web site and offer immediate VoIP connectivity to their markets.
- <sup>8</sup> Interoffice Voice Trunking (IVT) allows companies to use their existing TDM or IP-based systems to call other sites within their enterprise without incurring expensive long distance phone charges. Both Remote Extension and IVT are made possible by a breakthrough GIPS technology that puts advanced processing at the network's edge rather than the middle to ensure quality of service and cost savings.

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